

THE INDONESIAN GOVERNMENT'S INTERVENTION IN MARKET PRICING (CEILING PRICE AND FLOOR PRICE) REVIEWED IN ISLAMIC ECONOMIC PERSPECTIVE

Lusiana*
Gita Astrid**

Abstract: *In a country's economy, government's role is undebatable in theories or treasury of economic thought. Through various policies concerning the public sector, the government has a significant role in driving economic growth. One of them is the government's role in Indonesia. The government's role in Indonesia in the economic sector is key to a more prosperous society, and it is expected that Indonesia can become a developed and developing country. The economic magnitude and problems such as demand and supply cannot be given up to the market mechanism and free of economic forces. And how the government intervenes in price fixing when a market imbalance exists. Therefore, efforts to balance the growth of various economic sectors to supply must be in line with demand. It needs supervision and regulation by the State or government to obtain balanced economic growth. Thus, the researcher is interested to study government intervention in price fixing in the market and how it is viewed from Islamic economics. The results of this study show that the form of government intervention, both directly and indirectly in price fixing in the market is to protect consumers or producers through a price floor policy. Minimum price fixing or base prices performed by the government aims to protect producers. For instance, the price fixing of grain sold by farmers. And the maximum price fixing policy (price ceiling). The maximum price fixing policy is set to protect consumers. For instance, fix a maximum price for fuel oil, fertilizer, and medicines. In Islamic economics, government intervention is divided into two parts, including interventions that are forbidden or haram, involving government's involvement in price fixing that are not based on applicable rules or do not consider overall market's needs. Permitted interventions, including the involvement of the government in price fixing when an emergency occurs, where a third party is required in price fixing to create justice among market participants.*

Keywords: *Government intervention, price fixing, price ceiling and price floor*

Introduction

The government is essentially a service to the community. Government is not held to serve themselves, but the community, by generating conditions that allow each member to develop their abilities and creativity to obtain mutual progress. The role government in the economy of a country is something undebatable in economic theories. Through various policies connected to the public sector, the government plays an essential role in driving economic growth. One of the actions or policies issued by the government is a price-fixing intervention in the market. Government intervention has become a regular phenomenon in the economy, particularly in developing countries. In Indonesia, several price-fixing intervention policies are often implemented, primarily on public holidays or market imbalances, which in turn makes the government intervene in either the basic or highest price.

Islamic economics basically prohibits government intervention on price fixing in the market. It is because changes in prices are a natural thing

caused by shifts in demand and supply. Furthermore, Islamic economics requires a fair competition, openness, honesty and justice.

Indonesian Government Interventions

Intervention is an intervening performance or action o by an authorized party to a problem or dispute between two or more parties, which results in the loss of one of the parties involved in the problem. The government intervention can be understood as the effort or action to suppress particular parties performed by the government in a work plan aiming to achieve something better (<https://www.pengertianmenurutparaahli.net>).

Government is a group of people who manage authority, perform government leadership and coordination and community development of the institutions where they are placed. The government is an organization or a media for those who have power and institutions that manage the state and welfare of the community and the State. Government is an organization of powers to make and apply laws and constitution in particular regions. The government in the broadest sense is all affairs performed by the State in conducting the welfare of the community and the interests of the State. Therefore, it is not interpreted as a government that only performs executive duties but also includes other duties of legislative and judiciary. Government functions can be found in the constitution in the form of judicial functions, budget planning, taxes, military, and police. Rasyid divided the functions of government into four parts, including public service, development, empowering, and regulation (Labolo, 2006: 22).

The government plays an essential function in economic life, particularly relating to the supply of goods and services. Both of them are highly much needed by the community and are called public needs. Efforts to improve economic life, individuals, and community members do not only rely on the role of markets through the private sector. Government's role and the market mechanism (interaction of demand and supply at the market) is complementary (not substitute) with other economic actors. The government as one of the economic actors (government households), has an essential function in the economy as a stabilization, which is government function in creating stabilities in economic, social politics, law, defence, and security. allocation, including the function of the government as a provider of public goods and services such as the construction of highways, school buildings, provision of lighting facilities, and telephone and distribution, which is the function of government in the equal distribution or spread of community income.

According to Richard A. Musgrave, the Government as one of the economic actors (government households) holds an essential function in the economy which is to function as a stabilization, allocation and distribution. The explanation is as follows (Algifari, 2000:20):

1. *Allocation branch*) which is the function of government to provide fulfilment for public needs.
2. *Distribution branch* which is the functions based on considering socioeconomic influences; including consideration of wealth and income distribution, educational opportunities, social mobility, market structure. A variety of citizens with various talents, involving the task function.

3. *Stabilization branch* which is the function that concerns the effort to manage existing stability and policies. Besides, this function aims to manage economic stability (as economic stabilizers).

Government intervention as a provider and manager highly relies on market conditions. Once the market is effective, government intervention is inclined to be low. Generally, the government will only position itself as a regulator and supervisor, while the provision is provided to the market (the private sector). However, if the market is not effective yet (for instance, there is a gap between public demand and the supply), then, inevitably, the government must be included as a market player, either directly or through institutions that have been formed, such as SOEs. The effectiveness of the market will change along with economic development, making the level of government intervention to be adaptive as well. Essentially, the government participates in economic activities to cope with market failures so that there are no externalities that harm many parties.

Essentially, the government participates in economic activities to cope with market failures so that there are no externalities that harm many parties. The form of the role of government is to intervene both directly and indirectly.

One of the interventions of the government of the Republic of Indonesia concerning economic problems is through Law No. 39 of 2007 concerning customs. Illegal export and import goods can destruct the economic system by disturbing the market balance. Therefore, the notion of market intervention is government intervention in controlling the market economy, which intends to maintain price stability.

In Indonesia, according to the Constitution of the Republic of Indonesia of 1945 and the GBHN, government intervention to respond to and or complete deficiencies in the free market system. It is because Indonesia's "Economic Democracy" based on Pancasila does not allow "free" competition in the sense that the strong parties are free to push the weak economy, or the monopolist is free to blackmail fellow community. It is as the role of the regional government on trading as stipulated in the Law of the Republic of Indonesia no. 7 of 2014 concerning Trade of Article 95-point c, that the regional government functions to control the availability, price stabilization, and distribution of basic needs and/essential goods (Industrial law (UU RI No.3 of 2014) & Trade Law (UU RI NO.7 of 2014), 2014: 173). Therefore, the government functions to oversee, regulate and direct the market work system to control prices so that weak producers and consumers can be protected by the government, private, and community.

The Indonesian government intervenes to generate a conducive and fair market mechanism to all levels of the community in the country. The Indonesian government stated that certainly, the government's role in the market mechanism would be performed appropriately and not counterproductive. "Some argued that the government does not need to interfere in the economy. It's wrong. There is an invisible and visible hand. However, the role of the state must be fit, not overdo, not counterproductive," said President Yudhoyono when giving a speech at a Shared Vision Towards Advanced Indonesia organized by the National Economic Committee at the Grand Ballroom, Ritz Carlton Pacific Place Hotel (<https://ekonomi.bisnis.com>).

Price Fixing

Price is a measure of the value size of someone's satisfaction with the product bought (Gitosudarmo, 2014: 272). Historically, the price is determined by the buyer and seller via a bargaining process, so that particular price agreements occur and whether a contract is determined or not. Another outlook stated that price is the value of a good or service measured by the amount of money spent by the buyer to obtain some combinations of goods or services and assistance (Team Reality, 2008: 450).

Price serves as a measure for consumers to examine the quality of products offered to meet the needs and desires of consumers. We can find in a society that the price determines the quality of goods, for instance, goods with good quality certainly has an expensive price, and precisely it is the opposite, if the quality of good is ordinary, then the price of the good is not too expensive. Therefore, it can be understood that the price is an agreement concerning the transaction of goods or services where the agreement is accepted by both parties. The price must be acknowledged by both parties in the contract.

Price fixing has a highly broad function in marketing programs. Price fixing indicates how to connect the products with the aspirations of the target market, which indicates that we must also review the needs, desires, and expectations of consumers. In fixing prices, producers must understand in depth the magnitude of consumer sensitivity to prices.

Therefore, price fixing can impact sales realization indirectly. Thus, every price fixing must be considered carefully to produce a benefit that is obtaining profits while consumers can afford the products so that they can meet and satisfy consumer needs.

Generally, price fixing activities in Indonesia entirely rely on demand and supply. However, in particular situations or circumstances, the government intervenes in price control. The role of the Indonesian government in price fixing can be performed in two ways, including direct and indirect interventions. Direct intervention includes maximum and minimum price fixing, while indirect intervention includes setting taxes and providing subsidies. Price control aims to protect consumers or producers. The most common form of price control to use is the base price fixing (*price floor*) and maximum price (*price ceiling*) (Satria, 2019).

When Price Ceiling is determined at a price level below the market price, excess demand or excess supply will occur. The amount of production will be small when prices are low, while demand will be folded more because of lower prices. The demand will be more than the supply where more people will intend to purchase at a cheaper price while the supply is limited. Price ceilings aim to protect consumers from the fluctuation of unlimited prices. The price ceilings regulation will be effective if it is accompanied by supporting operational policies like Market Operations at a particular time where the government increases the number of goods offered to the market.

Price floor (base price) is the retail price or the lowest (minimum) price determined by the government for a good because of the abundance of the goods offered in the market ([wordpress.com /2011/11/05/ceiling-price-and-floor-price/](https://wordpress.com/2011/11/05/ceiling-price-and-floor-price/), accessed on October 20, 2019,). Base prices will affect if they are set at a price level above the level of equilibrium price. If the price floor is set below the level of equilibrium price, this intervention policy will not affect the

market. The government determines the price floor to set a minimum price for particular goods. When Price Floors are set above the level of equilibrium price, there will be surplus supply. It occurs when producers produce more goods, but demand decreases due to higher prices of goods. The aim of applying the price floor by the government is to protect producers. The lowest retail price fixing or the price floor will result in an excess offer.

An example of Indonesian government intervention is the price fixing of grain; The persistent policy of grain price has been performed by the government to stabilize rice prices. At the time of the rice harvest, the supply of rice on the market is increased, which naturally result in a decrease in the price. Indonesia has a challenge that must be faced to increase production efficiency. On the other hand, it is an opportunity to increase domestic production through the utilization of abundant resources. It will be a proper policy if Indonesia is oriented towards increasing products that have competitiveness or comparative advantage in the world market. Concerning rice commodities, Indonesia is considered as a large country in rice imports, and without any efforts to spur domestic production, it is estimated that Indonesia's import volume will continue to increase. Some research has shown that Indonesia has a comparative advantage in producing rice.

However, in fact, the increase in rice production in Indonesia is relatively slow. Even on the contrary, history proves that the instability of food supplies, particularly rice in Indonesia has triggered and caused and lead riots and even criminal acts. It reminds us of the importance of the rice availability followed by equitable distribution.

The various types of rice available in the domestic rice market become the background of the policy of the Highest Retail Price (HRP) of rice issued by the Ministry of Trade through the Minister of Trade Regulation No.57/M-DAG/PER/8/2017 concerning the Determination of the Highest Retail Price of Rice which classifies rice into medium, premium, and special rice. Special rice is excluded from the provisions regarding HRP. The provisions regarding special rice are regulated in Minister of Agriculture Regulation No. 31/PERMENTAN/PP.130/8/2017 concerning Rice Quality Class which states that special rice includes sticky rice, red rice, black rice, and special rice with requirements. Special rice with requirements include health rice, organic rice, rice with Geographical Indication rights and/or local variety rice that has been released by the Minister of Agriculture, and particular rice that cannot be produced domestically.

The aim of price fixing according to Harini is as follows (Harini, 2008: 55):

- a. Price fixing to achieve a return on investment.
- b. Price fixing for price stability.
- c. Price fixing to maintain or increase its share in the market.
- d. Price fixing to face or avoid competition.
- e. Price fixing to maximize profits.

Price Fixing in Islamic economics

Islamic Economics is the study of human activity or behaviour actually and empirically, in the production, distribution, and consumption based on Islamic law originating from the Al-Qur'an, As-Sunnah, and Ijma' of the scholars aiming at achieving happiness in the afterlife.

Therefore, generally, Islamic economics regulates all economic activities and all must conform to the guidelines of Islamic law. The purposes of achieving in Islamic economics include (al Arif, 2011: 12);

1. Fulfilling basic human needs including food, clothes, shelter, health, and education for the whole community.
2. Ensuring equality of opportunity for everyone.
3. Preventing the concentration of wealth and minimizing the imbalance of income and wealth distribution funds in the community.
4. Ensuring everyone the freedom to adhere to moral values.
5. Ensuring economic stability and growth.

The principles in Islamic economics include (al Arif, 2011: 13-14):

- 1) The principle of jointly like, is the principle of willingness that can be expressed in various forms of legal and accountable *muamalah*.
- 2) The principle of justice, is a balance or equality between individuals or communities. Justice includes providing equal opportunities to develop based on the possessed potential.
- 3) The principle of mutual benefit and no one is detrimental.
- 4) The principle of helping and assisting each other and forbidden for extortion and exploitation.

Three derivative principles characterize the origin of the Islamic economic system. These three derivative principles include (Maharani, Jurnal, 2018: 26-27):

- 1) Ownership of Various Types. This principle is a translation of the value of *Tauhid*: the main owner of heaven and earth and everything in it is Allah SWT, while people are given the mandate to maintain it. People are considered as secondary owners, thus in Islamic economics personal or private ownership is recognized.
- 2) Freedom to do Business. Economic actors who make the Prophets and Apostles as role models and great examples in performing their activities will lead to professional and excel individuals in all fields. Principle of Freedom to do Business. Freedom to do business will create market mechanisms, with the provision of no distortion (tyranny). Potential distortion is minimized by the appreciation of the value of justice. The state functions to eliminate or reduce market distortion and acts as a referee that oversees the interaction (*mu'amalah*) of economic and business actors to ensure non-compliance with sharia, so that a healthy economic climate can be created.
- 3) Social Justice, The combined value of *khilāfah* and *ma'ad* lead to the principle of social justice. In Islam, the government is responsible for ensuring the fulfilment of the basic needs of its people and generating the social balance of the rich and the poor. All economic systems have the same goal, including creating a fair economic system and consistently create an equitable system.

In the concept of Islamic economics, price fixing is performed by market forces, including demand and supply forces. The meeting of demand and supply must occur willingly. No one should feel compelled to make a transaction at a price level. If traders have performed arbitrary actions by increasing prices to endanger market situations and the public interest, then the government must intervene in price matters by price fixing to preserve the interests of many people, prevent hoarding and eliminate tyranny.

Therefore, the State does not need to hesitate to intervene when the threshold of justice is passed and there is no justification for waiting for market forces to set right the violations by themselves. However, it also needs to be realized that interventions alone should not be arbitrary since if they happen, it will also cause injustice in the end.

Market interventions have been performed in the days of the Rasulullah and Khulafaur Rasyidin. At that time, the price of wheat in Medina increased, leading the government to import wheat from Egypt. As long as market forces are running willingly without any distortion, then Prophet Muhammad refused to carry out any price intervention (Karim, 2003: 240).

Abu Yusuf explained that prices do not rely on demand alone but also on the power of supply. Therefore, an increase or decrease in price is not always connected to an increase or decrease in demand. According to him, there are no particular restrictions concerning the cheap and expensive price that can be ascertained. It has been regulated. The principle cannot be known. Regarding the abundance of food, likewise, the expensive price of the food is not caused by food scarcity. Cheap and expensive price is God's provisions. According to some observers, Abu Yusuf's remarks were considered to be the result of his research at that time, which was the simultaneous existence of an abundance of goods and high prices and scarcity of goods and low prices. At that period, Abu Yusuf also opposed the authorities to fix prices on his analysis in the concept of price control (*tas'ir*) (Karim, 2003: 31).

According to Ibnu Taimiyah, as quoted by Yusuf Qardhawi: "Price fixing has two forms; some are allowed and some are *haram*. Some *Tas'ir* is wrong, those that are *haram* and those that are fair, that is permissible (Qardhawi, 1997: 257).

Further, Qardhawi stated that if price fixing is performed by forcing sellers to accept prices they are not satisfied with, then this action is not justified by religion. However, if the price fixing increases justice for the whole community, such as establishing a law not to sell above the official price, this is permissible and must be applied (Qardhawi, 1997: 257).

In the concept of Islamic economics, price fixing is set by the strength of demand and supply. The meeting of demand and supply must take place voluntarily, neither party does it by force to accept the price fixing. When the market is normal, the government is not allowed to intervene. Therefore, price fixing cannot be performed by anyone, except there are things that force the government to intervene.

In the point of view of Ibnu Taimiyah, price fixing is allowed if there is a hoarding of goods and young prices changed because of speculation, so one is obliged to fix prices at a fair price. Therefore, the interventions performed here lead to the realization of the value of justice and general welfare, however, interventions here have limitations since they are prohibited if they cause wrongdoing.

From the above explanation, it can be understood that if the goods available in the market are little, while consumer demand is higher, then the price will increase. On the other hand, if the goods are abundant in the market while only a few consumers need it, the price will be reduced automatically.

Modern Islamic economic thinker has established the principle of price fixing and price changes mechanism in the Islamic Market as follows:

- a. The principle of freedom, which is freedom of the rises and falls of prices based on supply and demand factors. The Islamic Market System which has the tendency to be “free” also recognizes the enactment of the law of supply and demand in the level of commodity prices in the market. This law states that if supply increases and demand decreases, prices will fall. On the other hand, if demand increases and supply decreases, prices will rise. Meanwhile, if the demand and supply situations are balanced, then prices will tend to be stable.
- b. The principle of a reasonable price, the concept of a common or reasonable price describe the producing cost of commodities and limited margins by socioeconomic norms in the form of the ability and interests of consumers and honest behaviour of producers or sellers. It also indicates that the common price level is highly dependent on factors that can affect prices, such as supply and demand, scarcity and utility factors or the quality of the good.
- c. Related to profits, this principle will be able to generate a harmonious relationship between producers and consumers for a long time. Meanwhile, in the short term, with comprehensive consideration from the government to keep to foster harmonious social cooperation between producers and consumers by respecting the interests of each of them will be able to realize a stable and rapidly growing economic system.

According to the three Islamic principles concerning prices above, a point of view can be straightened out that price equilibrium does not indicate constant prices. However, it is more determined by the course of various market variables naturally as a direct result of a healthy market system. Taking into account the above matters, we must state that the Islamic price theory does not allow any form of exploitation and marketing behaviour that conflicts with Islamic legal norms, which are detrimental to both consumers or producers. Islam expects the generation of a system with a stable and balanced price level in each economy in accordance with the economic level of society.

Conclusion

Based on the above explanation, it can be understood that; In a country, the government plays a significant role for the nation's economy, leading them to have the authority to take action and policy steps for the welfare of the society in various ways. All policies taken are definitely aimed at the welfare of the society. Government policies are required to resolve problems, not to create new problems, and government intervention by using policy instruments is required so that market mechanism can be back to normal, and simultaneously, increased prices can be controlled to prevent inflation. The form of government intervention is both directly and indirectly in price fixing in the market to protect consumers or producers through a minimum price fixing policy (price floor). Minimum price fixing or base price set by the government aims to protect producers. For instance, the price fixing of grain sold by farmers. And the maximum price fixing policy (price ceiling). The maximum price fixing is performed to protect consumers. For instance, maximum price fixing for fuel oil, fertilizers, and medicines

In Islamic economics, government intervention is divided into two parts, including interventions that are forbidden or *haram*, involving government's involvement in price fixing that are not based on applicable rules or do not consider overall market's needs. Permitted interventions, including the involvement of the government in price fixing when an emergency occurs, where a third party is required in price fixing to create justice among market participants. Basically, government intervention in the market is not justified by Islam. The government intervention in the market is emphasized so that there is no injustice to achieve price equality in the market as understood by Ibnu Taimiyah.

References

- Arif, M. Nur Rianto. 2011. *Dasar-dasar Ekonomi Islam*. Solo: Era Adicitra Intermedia
- Algifari, Guritno Mangkoesoebroto. 2000. *Teori Ekonomi Makro*. Yogyakarta: STIE YKPN.
- Gitosudarmo, Indriyo. 2014. *Manajemen Pemasaran*. Yogyakarta: IKAPI.
- Harini. 2008. *Penetapan Harga Makro Ekonomi Pengantar*. Jakarta: Gramedia.
- Hadi, A. (1). Perdebatan Epistemologis Ilmu Ekonomi Islam dan Fiqh Muamalat. *Nurani: Jurnal Kajian Syari'ah Dan Masyarakat*, 13(2), 37-50. <https://doi.org/https://doi.org/10.19109/nurani.v13i2.122>
<https://www.pengertianmenurutparaahli.net/pengertian-intervensi-menurut-para-ahli/>
<https://ekonomi.bisnis.com/read/20121113/9/104479/mekanisme-pasar-intervensi-pemerintah-tetap-dilakukan-secara-proporsional>.
<http://satria-sig.blogspot.com/2011/11/penetapan-harga-ceiling-price-dan-floor.html>.
<https://dianmiracle.wordpress.com/2011/11/05/ceiling-price-and-floor-price/>.
- Karim, Adiwarman. 2003. *Ekonomi Mikro Islam*. Jakarta : III T Indonesia.
- Komarudin, Parman dan Muhammad Rifqi Hidayat, *Penetapan Harga Oleh Negara dalam Perspektif Fikih*. al Iqtishadiyah, Vol. III, Nomor I.
- Labolo, Muhadam. 200. *Memahami Ilmu Pemerintahan*. Jakarta: Raja Grafindo Persada.
- Maharani, Dewi. 2018. *Ekonomi Islam: Solusi Masalah Sosial Ekonomi*, (Intiqad Jurnal Agama dan Pendidikan Islam).
- Peraturan Perundang-undang Perindustrian (UU RI No.3 Tahun 2014) & Undang-undang Perdagangan (UU RI NO.7 Tahun 2014). Jakarta: Sinar Grafika.
- Qardhawi, Yusuf. 1997. *Norma Dan Etika Ekonomi Islam*. Jakarta : Gema Insani.
- Tim. Reality. 2008. *Kamus Terbaru Bahasa Indonesia Dilengkapi Ejaan Yang Benar*, Jakarta: Reality Publisher.